

Credit Cards: Tips to Control Credit

You may have seen offers around campus for completing a credit card application. It may sound good, but jumping at the first credit card offer or applying for too many cards is a bad idea. With the Credit Card Act of 2009, college students who are under age 21 will either need a cosigner age 21 or older, such as a parent, or will need to demonstrate sufficient means to repay the debt. While some credit card issuers work around the restrictions by treating student aid as sufficient means to repay the debt, some students will be unable to get a credit card and instead will need to get a debit card. If you must open up a credit card account, it is always best to select the card that is right for your lifestyle and budget. Below are tips to assist you to select the best card, manage your budget, and establish good credit.

The Pros and Cons of Having a Credit Card

The Pros

- They can make expensive emergency situations, such as car breakdowns or medical emergencies, easier to handle.
- Making your monthly payments on time allows you to establish a good credit record critical for large purchases (like a car or a home) in the future.
- They reduce the need to carry cash or checks.
- Your liability for unauthorized charges may be limited to \$50. Many card issuers will waive the charge(s) if you report the fraudulent charges immediately.

The Cons

- If you are not able to pay off your monthly bills in full, you will end-up paying more interest for purchases over time.
- You might be tempted to spend more than your budget will allow. Spending \$500 with a credit card feels the same as spending \$5, making it more difficult to exercise restraint and to limit spending.
- The result could be that your money will go to the credit card company (to cover payments and interest) instead of to your other expenses.

Understanding Interest & Fees

Paying only the minimum or a small monthly balance over a long period of time will have costly consequences. Here's an example on a balance of \$1,000, describing the interest you will end up paying, based on paying the same amount per month, at an interest rate of 18 percent:

Payment	Months to Payoff	Interest	Total Payment
Paid in full	1	0	\$ 1,000.00
\$200 a month	6	\$ 47.53	\$ 1,047.53
\$100 a month	11	\$ 91.62	\$ 1,091.62
\$50 a month	24	\$ 197.83	\$ 1,197.83
\$30 a month	47	\$ 396.72	\$ 1,396.72
\$20 a month	94	\$ 862.24	\$ 1,862.24

Due to the interest and amount of time it takes to pay off your original purchase by paying only the minimum payment each month, you could pay an extra \$862.00 or over 180% of the original cost of the item you purchased!

Smart Advice on Selecting a Card

When selecting a credit card, read the fine print in the agreement and make sure you understand the terms and conditions of the card before opening it. Look for a card that offers:

- Low or no annual fees. Student cards may offer very low interest rates and additional features to help you establish a credit history.
- Low annual percentages rate (APR). APR is the overall cost of borrowing money, expressed as an annual percentage of the balance.
- A grace period before finance charges start.
- Rewards such as money back, airline miles, frequent dining points, etc.

Identify Risky Credit Card Behavior

There are several risk factors that may indicate that you have a credit problem, such as:

- Using a credit card to pay off debt on another credit card.
- Carrying high unpaid balances and incurring large amounts of interest.
- Ignoring collection agency calls about unpaid bills.
- Hiding purchases or lying about your finances to your family or friends.
- Daily purchases.
- Not paying off your balance.

Where Can I Go for Help?

If you are experiencing credit management problems, take action fast! Follow these steps:

- Contact your credit card company, ask if they can lower your interest rate or set up an affordable payment plan.
- Set up a budget and rethink your spending. Be realistic about what you can and cannot afford.
- Get help from a local consumer credit counseling center. Avoid commercial services that offer to help. These services are usually very expensive. For more information, contact the National Foundation for Credit Counseling at www.nfcc.org.